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SUBJECT: Japan Economic Scope for October 3, 2008

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¶1. (U) This cable contains the Japan Economic Scope for October 3, 2008.

Insurance and Investment

¶2. (U) Japan's FDI Stock Up Sharply in 1H 2008
Japan's stock of inbound foreign direct investment (FDI) rose more than 11% in the first half of 2008, according to preliminary figures from the Ministry of Finance. Japan's FDI stock, as of June 30, 2008, was 16.84 trillion yen (\$160 billion at current exchange rates), up from 15.14 trillion yen at the end of CY 2007, despite recent global financial uncertainty.

This latest figure, if it holds up after subsequent statistical revisions, keeps Japan on track to achieve the GOJ's stated goal of raising Japan's FDI stock to the equivalent of 5% of GDP by the end of FY-2010 (March 30, 2011). The current figure is equivalent to about 3.6% of GDP.

Transportation

¶3. (SBU) Toyota Says Auto Industry Faces Survival of the Most Innovative

A top Toyota Motor Executive told Consulate Nagoya the company is understandably very concerned about the current serious economic downturn, particularly in the United States, which is the company's biggest market. Nagoya Toyota leadership is telling staff Toyota must act quickly to adjust itself to cope with the changing environment.

Accordingly, Toyota decided to change its plan for North America in July. Toyota now plans to produce the Prius at its new Mississippi plant (now under construction) starting in late 2010, instead of the SUV the Highlander, as previously announced. This change will require retooling the supply chain, because many of Toyota's North American suppliers had been geared to produce and supply parts for the Highlander, not the Prius.

Japan's Foreign Relations

¶4. (U) Foreign Assistance Agencies Merge
The Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC) merged October 1. JICA will continue to manage technical assistance and, through the merger, will implement yen loans formerly handled by JBIC and oversee most of the grant aid formerly handled by the Ministry of Foreign Affairs (MOFA). (MOFA will retain emergency grant aid and grassroots grant aid administered by Japan's embassies.)

The merger makes JICA one of the largest aid agencies worldwide, with an annual ODA disbursement of \$9-11 billion.

15. (U) Japan Concludes An Economic Partnership Agreement With Switzerland, In Principle

Japan and Switzerland reached an agreement in principle on September 25 to conclude their year-long Economic Partnership Agreement negotiations; exploratory talks began in 2005. It is Japan's first EPA with a European partner, and once signed, will reduce tariffs on a range of Japanese products including automobiles and metals. Currently, Swiss tariffs are applied to over 80% of Japanese exports while Japan applies tariffs to 20% of Swiss products. Two-way trade in 2007 reached 950 billion yen (\$900 billion), and Japanese manufacturing exporters should benefit from the EPA once it is formally concluded. Swiss financial firms (UBS, Credit Suisse and Swiss RE) are expected to take advantage of the new investment and services opportunities the financial services EPA's chapter creates.

16. (U) "Private Sector Enhancement" Loan Agreement With African Development Bank

On September 11, the Japan Bank of International Cooperation (JBIC) signed an Official Development Assistance (ODA) loan agreement with the African Development Bank totaling approximately \$303 million to finance private sector assistance. The project is implemented under the "Enhanced Private Sector Assistance (EPSA) for Africa," a joint initiative with AfDB.

The loan is the second JBIC has provided for the African private sector through AfDB. (On February 2007, JBIC has signed a loan agreement of approximately \$108.5 million with AfDB). The loan aims at promoting private sector development in Africa by meeting the financial needs of the private sector companies that are registered

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in AfDB's regional member countries within the AfDB's private sector assistance strategy. The loan will enhance private sector-driven economic growth and poverty reduction in Africa, with two possible projects being the establishment of a microfinance institution in Tanzania and construction of a hydraulic power plant in Uganda.

Environment and Energy

17. (SBU) Climate Change: Japan Finalizing Proposal For December UNFCCC Meeting

Japan may propose binding quantifiable targets for developed nations and binding energy efficiency targets for China, India, and other developing countries at the Poznan UNFCCC (United Nations Framework Convention on Climate Change) meeting in December, according to MOFA's Climate Change Office. While the details of Japan's proposal are still under discussion within the GOJ, a MOFA contact said Japan will not propose extending the Kyoto Protocol, but will seek a new agreement with multiple baseline years. He said the GOJ would submit its proposal to the UNFCCC by September 30.

18. (U) Aso Wants Japan To Lead in Addressing Climate Change
New Prime Minister Aso instructed Environment Minister Saito to ensure Japan leads the world in addressing climate change, Saito told reporters at a September 24 press conference. Saito added that a domestic trial emissions trading scheme, unveiled by former PM Fukuda in June, will start in October as planned. Aso used to use his September 25 UN General Assembly speech to urge the international community to move forward at the UNFCCC (United Nations Framework Convention on Climate Change) COP 15 in December.

Business

19. (U) Public-Private Cooperation Symposium

On September 17, the Foundation for Advanced Studies on International Development (FASID) and MOFA held the symposium "Cooperation of NGOs, Official Aid Agencies, and Private Corporations towards Poverty Reduction and Sustainable Development in Developing Countries." Various speakers (Cornell University, UNDP, BRAC--Bangladesh NGO, and Japanese companies) presented key elements of involving the private sector into development issues. The President of the World Cocoa Foundation Guyton spoke about

USAID/GDA and its activities.

At the symposium, the future Director of the Assistance Strategy Department Kunio Okamura discussed Japan International Cooperation Agency's (JICA) plan for public-private partnerships, saying that JICA will accelerate Public-Private Partnerships (PPP) and will create an Office of Private Sector Partnerships within the new JICA.

SCHIEFFER